

# **Alabama CollegeCounts 529 Savings Fund**

## **Update on the 529 Landscape**

**February 15, 2012**



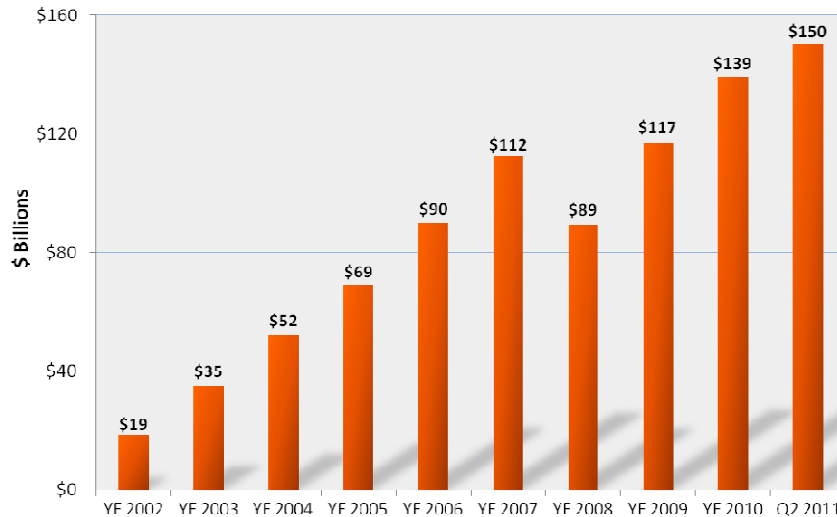
# Presentation Overview

- The Market Today Pages 2 through 6
- Program and Industry Developments Pages 7 through 15
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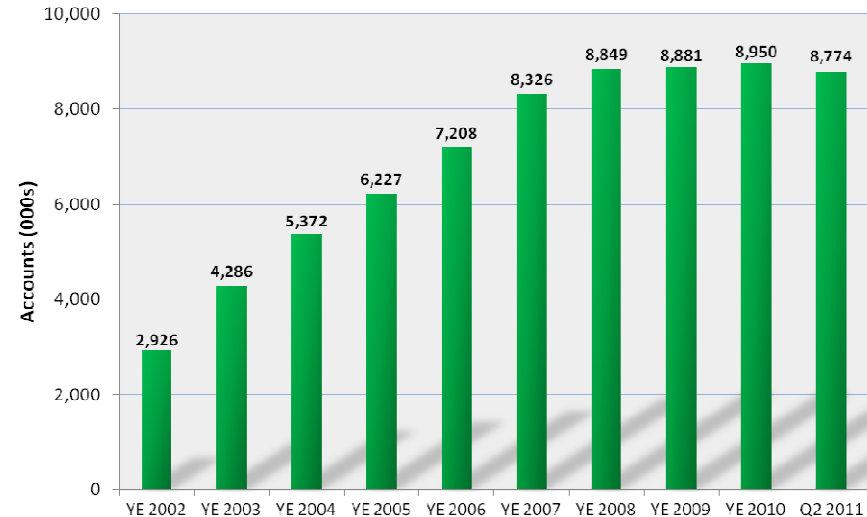


# National 529 Savings Market – January 2002-June 2011

National 529 Savings Assets 2002 - June 2011



National 529 Savings Accounts 2002 - June 2011



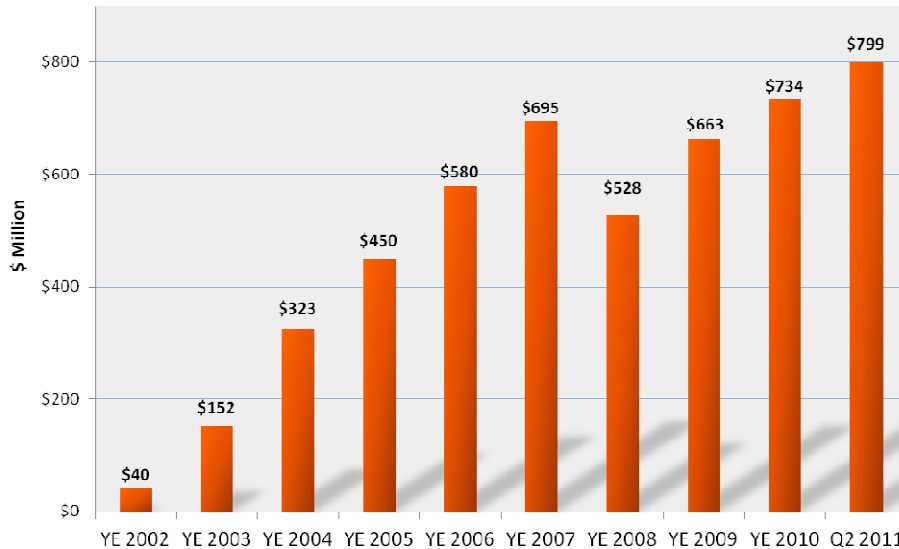
- **Assets in 529 plans nationwide have increased steadily since the extreme market downturn in 2008**
- **Accounts nationwide appear to have leveled off, with a slight decrease to mid-2011**
- **Assets do not distinguish between market performance and new contributions; accounts reflect a change in data collection by CSPN in 2009**



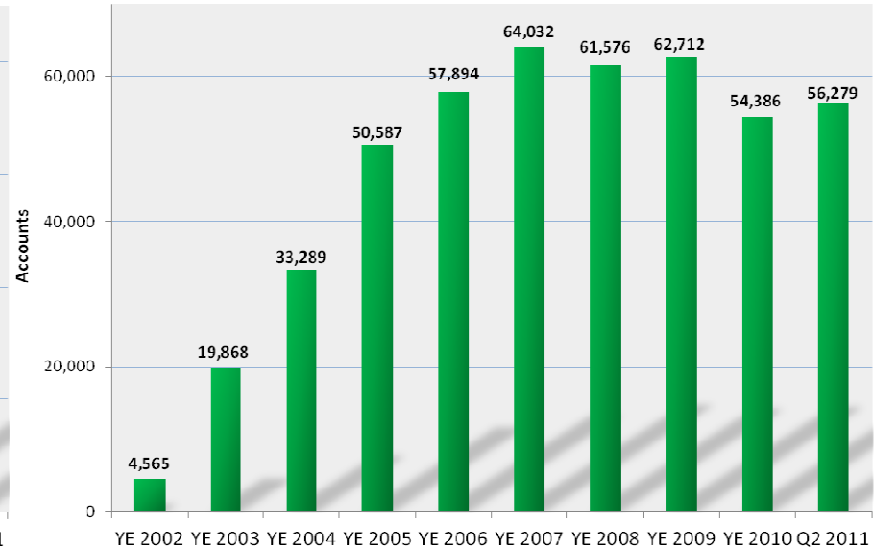
Source: College Savings Plan Network ("CSPN") data as of June 30, 2011, as modified by information provided by Alabama

# Growth of Alabama Savings – January 2002-June 2011

Alabama Savings Asset Value 2002 – June 2011



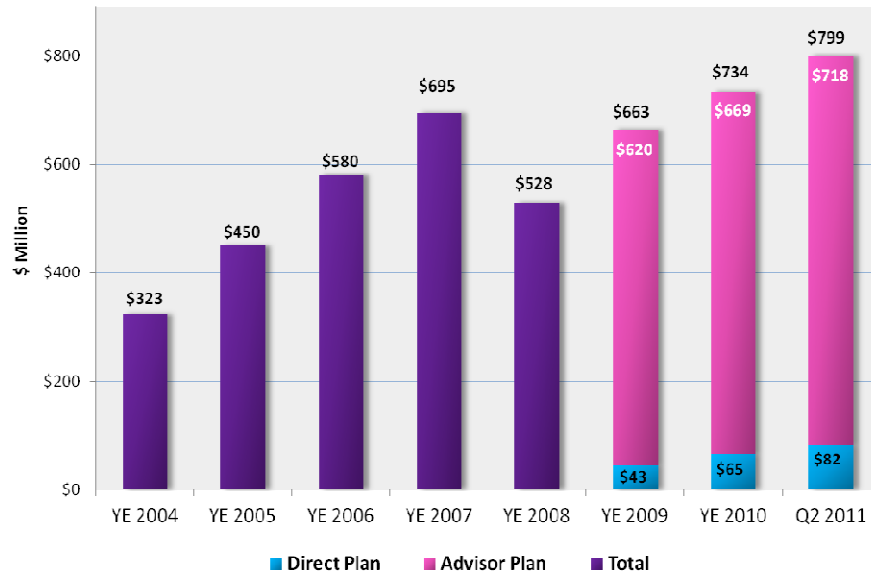
Alabama Savings Accounts 2002 – June 2011



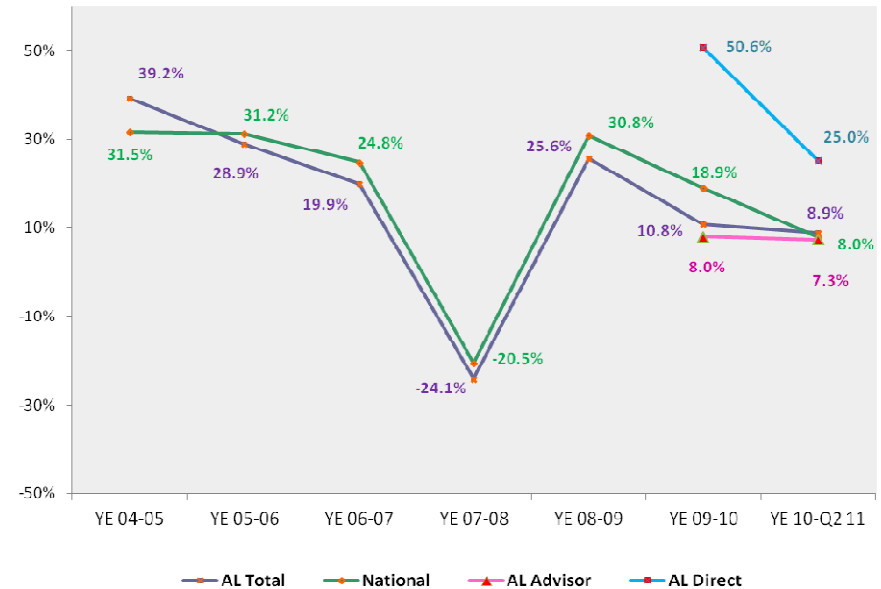
- Alabama assets and accounts grew steadily between 2002 and 2007
- Despite a difficult 2008, asset value surpassed the 2007 high-mark in 2010
- After moderate growth in 2008 and 2009, the number of accounts is increasing as of 2011

# Alabama Savings Assets – January 2004-June 2011

Alabama Savings Asset Value 2004 – June 2011



Savings Asset Growth Rates 2004 - June 2011



- Although lagging slightly, growth of total Alabama assets has largely mirrored national asset growth
- More recently Alabama asset growth has exceeded slightly the growth of national assets (8.9% v 8.0%)
- Direct Plan asset growth has exceeded national growth rates, albeit with a much smaller asset base

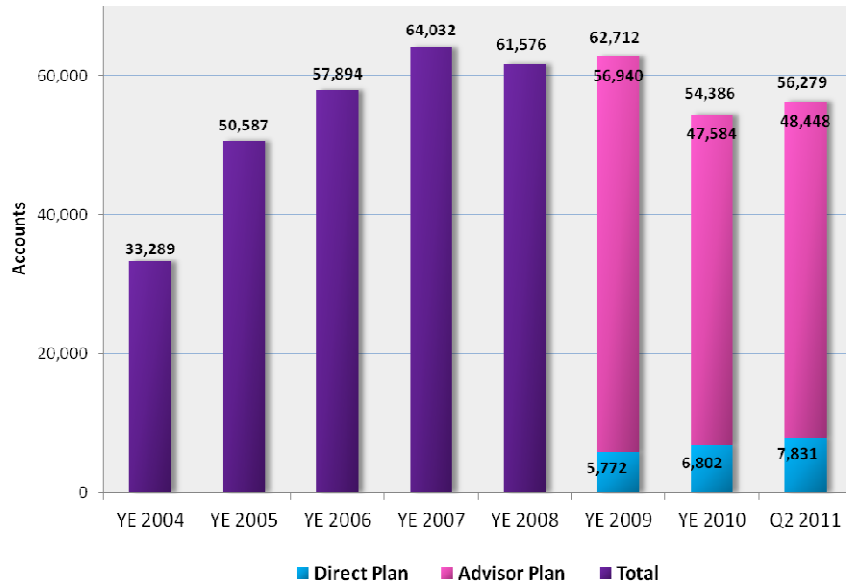


Sources: CSPN data for Alabama assets from 2004 to 2006, and 2009 through Q2-2011  
CSPN data as modified by Alabama for 2007 and 2008

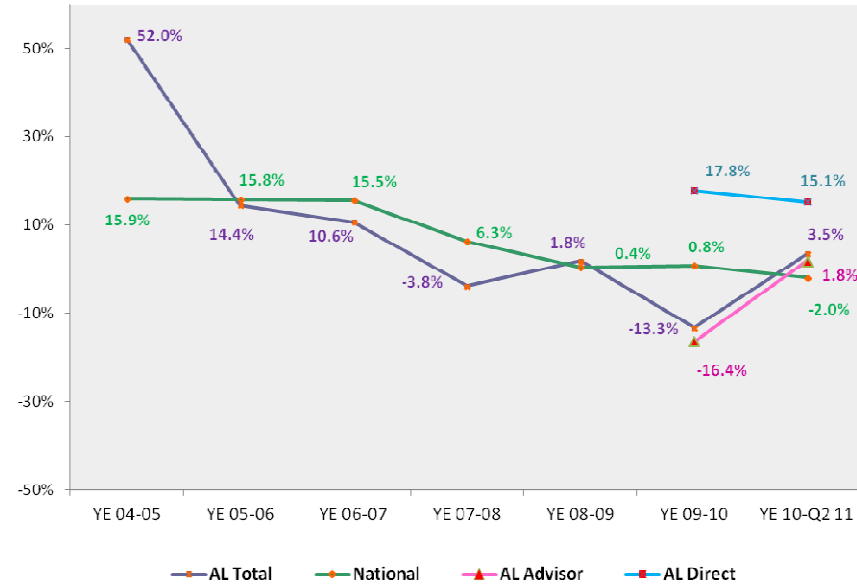


# Alabama Savings Accounts – January 2004-June 2011

Alabama Savings Accounts 2004 – June 2011



Savings Account Growth Rates 2004 - June 2011



- Direct Plan accounts increased through 2011; Advisor Plan accounts have increased more recently
- Except for slight outperformance in 2009 (1.8% v 0.4%), total Alabama account growth lagged national accounts from 2006 to 2010
- 2011 results through 2<sup>nd</sup> quarter show stronger Alabama account growth than national (3.5% v -2.0%)

## 529 Market Observations

- Extreme market volatility through 2011 makes industry year-end results hard to predict
- Negative financial press, particularly after third quarter reports of net outflows, may have left investors uncertain about 529 plans
- BUT consumer data indicates an uptick in savings overall by year-end 2011
- CollegeCounts Direct Plan has exhibited strong asset and account growth since 2009
- CollegeCounts Advisor Plan asset and account growth has been steady, with account growth most recently exceeding national account growth overall

## Program and Industry Developments

- **The Beginning (1999 to 2002)**
  - *A simple but evolving business model*
- **Re-Bids Begin (2003 to 2006)**
  - *Increasing competition in a growing market*
- **Market Pressures Take Over (2007 to 2009)**
  - *Volatility leads to new product and new messages*
- **The Race to the Bottom (2010 to present)**
  - *Fee pressures may have taken the industry too far*



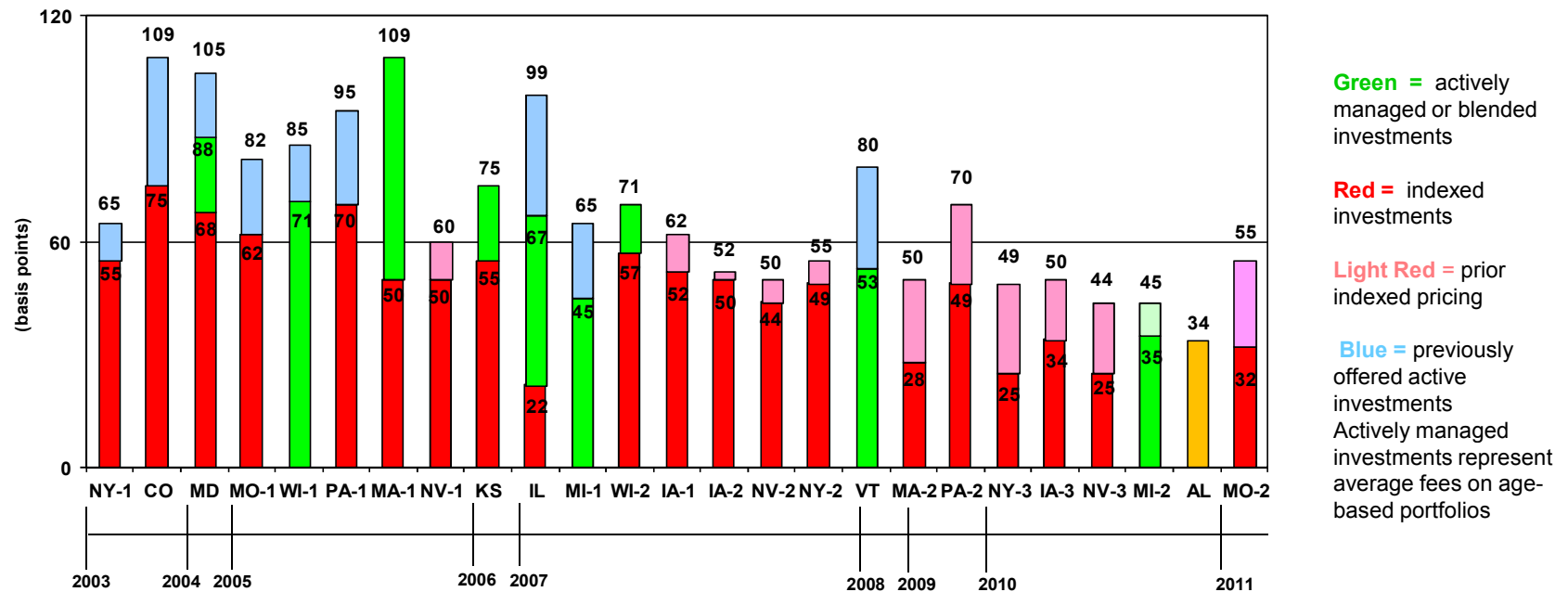
## Program Developments - Manager RFPs

Year	State	AUMs <sup>1</sup>	Retained Manager	New Manager
2010	Alabama	\$700m		Union Bank
	Ohio	\$3.3b		BlackRock
	Missouri	\$1.2b	Upromise - Vanguard	DWS on Advisor
2011	New York	\$11.2b	Upromise - Vanguard	J.P. Morgan on Advisor
	California	\$4.3b		TIAA-CREF on Direct
	South Carolina	\$1.3b	Columbia Management is the incumbent RFP evaluation is underway	
2012	Michigan	\$2.7b	TIAA-CREF is the incumbent RFP is underway	
	Wisconsin	\$2.8b	Wells Fargo will not rebid RFP release expected 1 <sup>st</sup> quarter 2012	
	Iowa	\$120m	Upromise is the incumbent RFP release expected 1 <sup>st</sup> -2 <sup>nd</sup> quarter 2012	

## Program Developments -- Select Contract Renegotiations

Year	State	Manager	Extension	Final Term
2006	Virginia	American Funds	10 years	2027
2007	Iowa	Upromise / Vanguard	7 years	2017
	West Virginia	Hartford	5 years	2012
2008	Colorado	Legg Mason	13 years	2022
2009	Arizona	Fidelity	5 years	2014
	Arizona	College Savings Bank	7 years	2016
2010	Rhode Island	AllianceBernstein	5 years	2015
	Kansas	American Century	5 years	2017
	New York	Upromise	1 year	2011

## Program Developments – Net Effect is Reduced Fees



- Early fee reductions achieved through indexed options
- Competition drives more recent fee reductions (e.g., Fidelity in December 2009; Upromise, TIAA and T. Rowe in 2010 and 2011)
- CollegeCounts Direct Sold indexed options are competitively priced

## Industry Developments – Departures and Entries

Year	State	Program Manager	Investments
2009	Alabama	Van Kampen	Van Kampen
	Michigan Advisor	TIAA-CREF	Allianz
	Oklahoma Advisor	TIAA-CREF	Allianz
	Ohio Advisor	BlackRock	BlackRock
2010	Montana	Pacific Life	Pacific Life
	Connecticut Advisor	Hartford	Hartford
	Nevada Advisor	Putnam	Putnam
2011	Missouri Advisor	Upromise	DWS
	Tennessee	Georgia	TIAA
	California Advisor	Fidelity	Fidelity
2012	Wisconsin	Wells Fargo	Wells Fargo

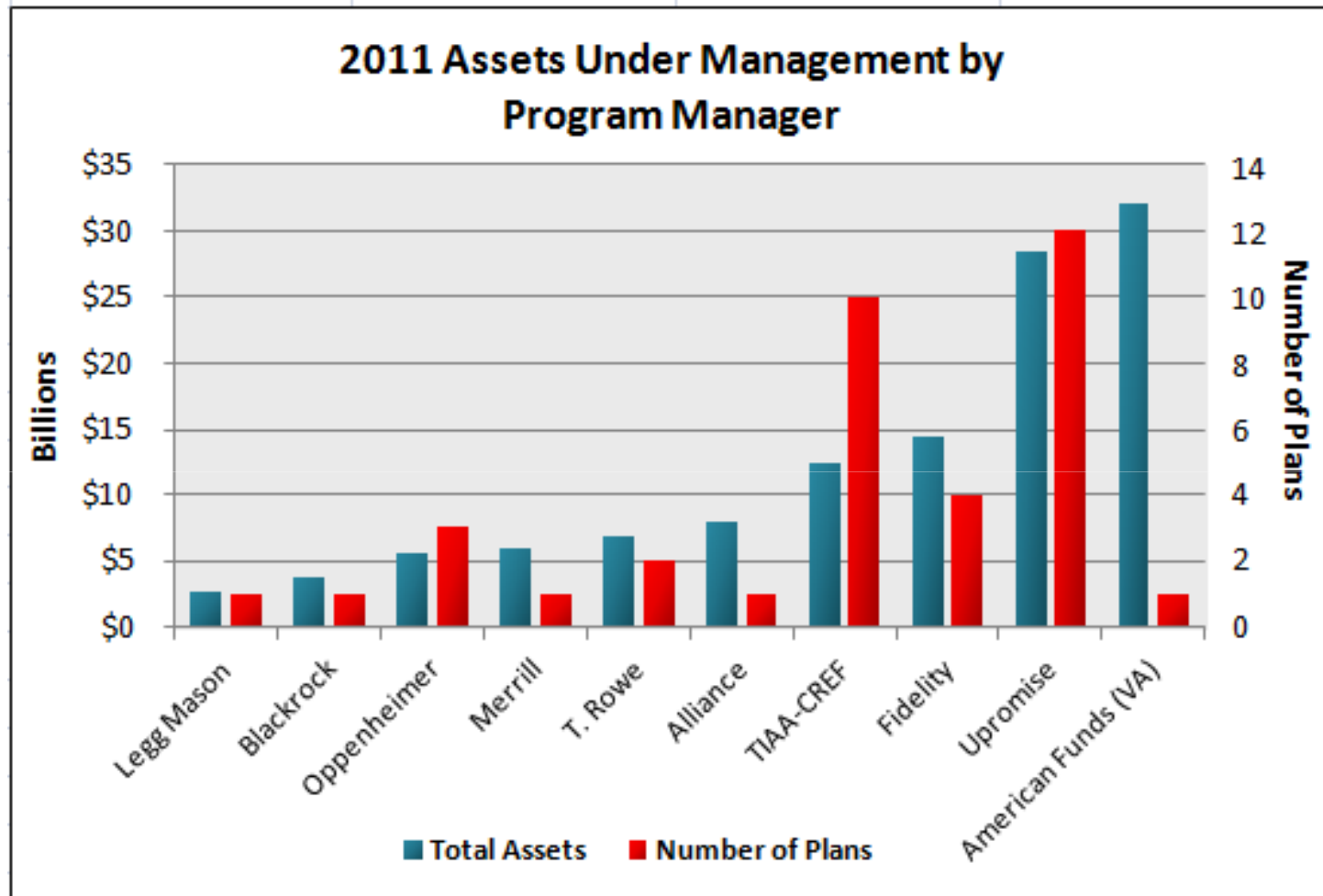
## Industry Developments -- Net Results

- Concentration among top 10 program managers has decreased:

Year	States	Percent of Total
2007	35 States	86.17%
2008	34 States	86.03%
2009	34 States	85.60%
2010	35 States	78.73%
2011	35 States	80.06%

- Changes reflect:
  - 2008-09 market losses
  - Program management changes
  - Increasing market share for direct-sold plans

## Industry Developments – 2011 Program Manager Consolidation



## Other Program and Industry Developments

- **Prepaid Plans**
  - Texas amends Guaranteed Tuition Plan refund policy as of November 2009
  - Oppenheimer takes over Private College 529 Plan in 2010
  - Tennessee shuts down BEST in January 2011
  - South Carolina Program Manager RFP in November 2011 includes prepaid management
  - Illinois suspends sales in CollegeIllinois in December 2011
- **New Product Trends**
  - Federally-insured investment options continue to grow (new options in Indiana, Nevada, North Carolina, Nebraska, Idaho, Delaware, Arizona, Massachusetts and New Hampshire)
  - ETFs in advisor-sold plans (Arkansas, Indiana, Iowa, Maine, Missouri, Ohio)
- **Recordkeeping Changes**
  - Upromise provides platform for American Century (Kansas) and Hartford (West Virginia and Connecticut)
  - “Omnibus” accounting by Edward Jones for CollegeAmerica

## Other Industry Developments – Federal Initiatives

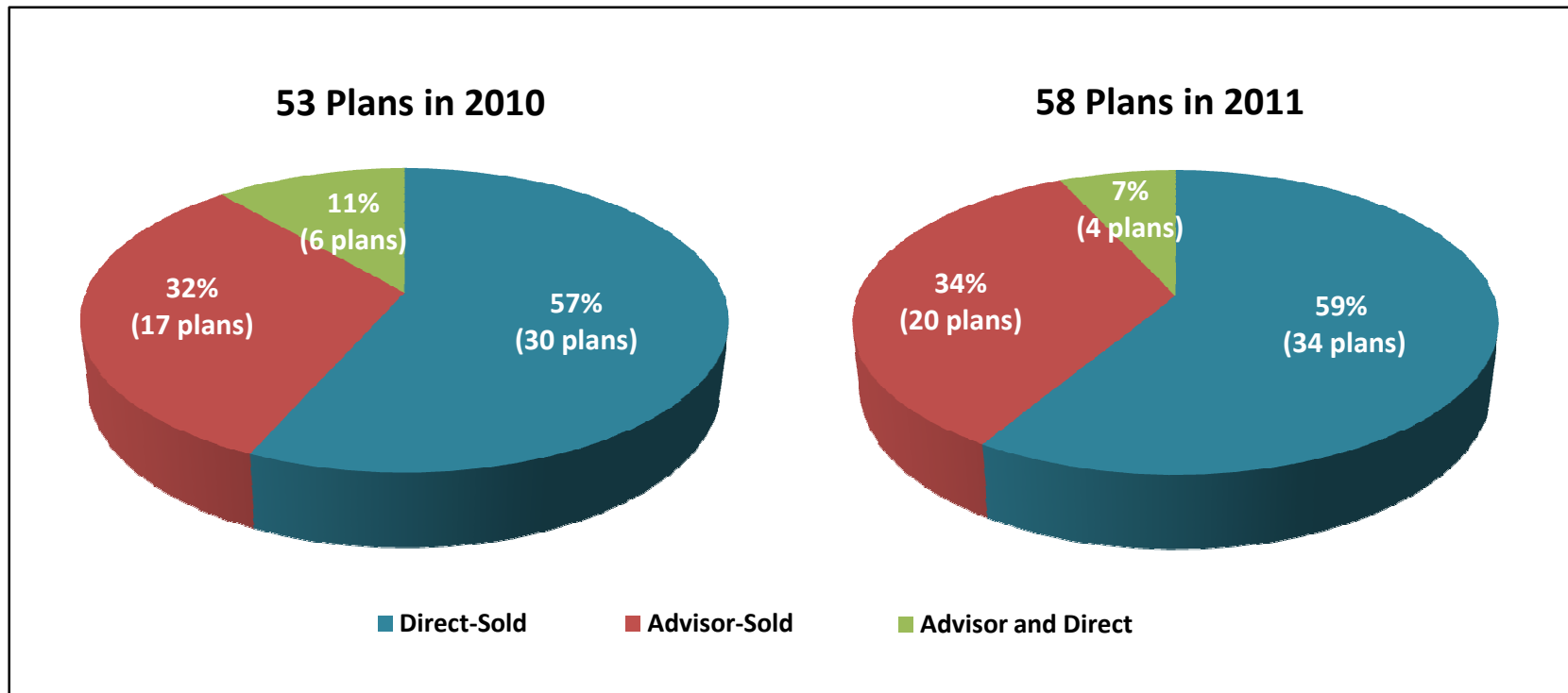
- CSPN continues to seek sponsors for 529-specific legislation in Congress
  - HR 529 provides fixes for computer and investment changes, seeks to extend the SAVERs credit to 529 plans, and creates an employer match
  - Total “score” is \$3.5 billion
- Congress introduces ABLE legislation to expand 529 plans to special needs beneficiaries
- Federal legislation for 529 bank products
  - Legislation previously passed the House authorizing banks to offer 529 plans with continued involvement of state entities
  - ABA seems stalled in attempts to have legislation re-introduced
- SEC and MSRB on multiple Dodd-Frank provisions
  - SEC working to define “municipal advisors” (public board implications)
  - Efforts underway to initiate MSRB data collection
- President’s Higher Education initiatives for 2013 Budget



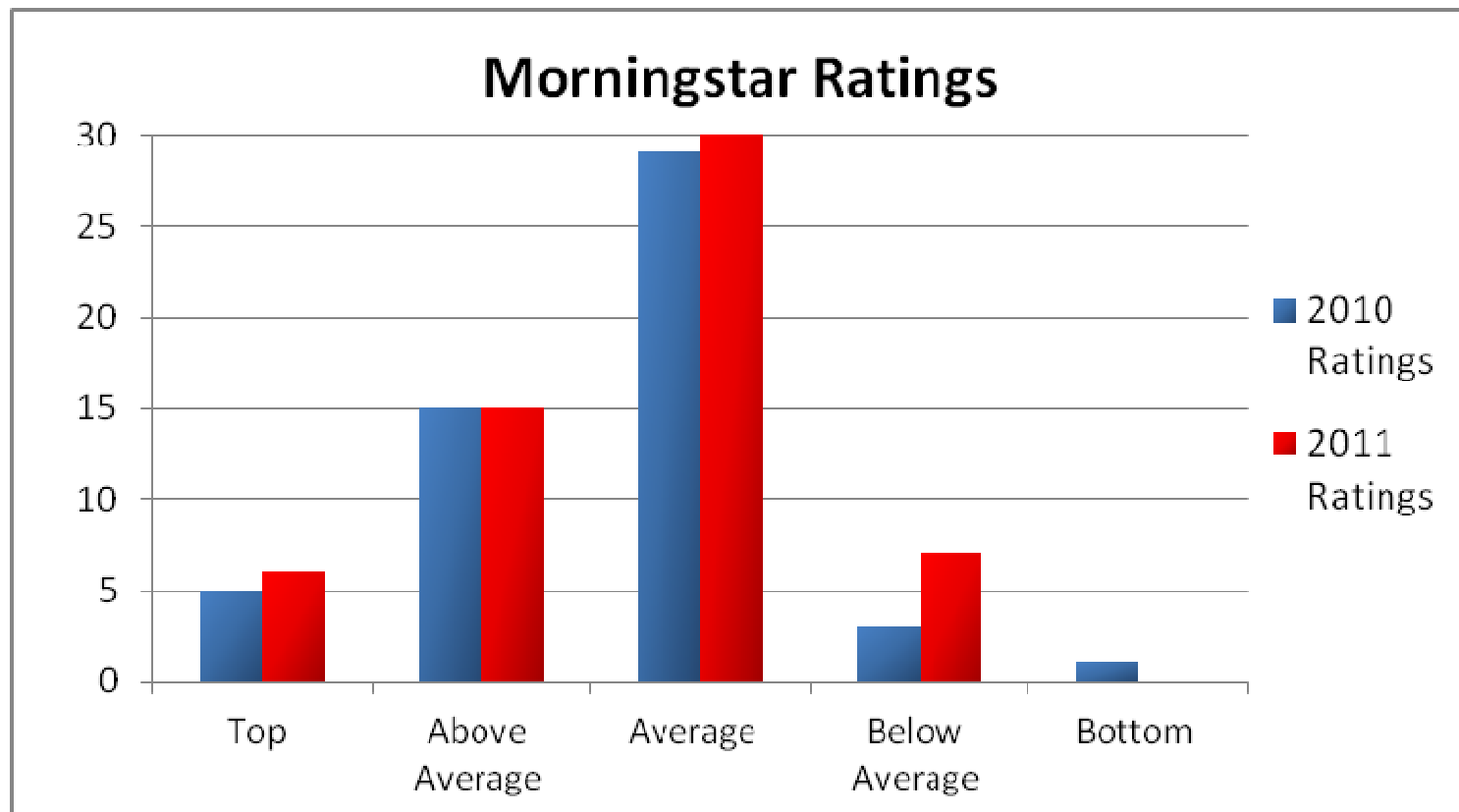
# Morningstar Analysis

- **New Rating Process – October 2010**
  - Morningstar rates 53 largest advisor- and direct-sold plans
  - Categories range from “Top” to “Bottom”
  - Five “pillars” for analysis:
    - Portfolio
    - Performance
    - Price
    - Parent
    - People
  - Introduced asset class and age-band benchmarks for comparisons
  - Some inconsistencies in data and rating results
- **Second Rating Process – October 2011**
  - 58 advisor- and direct-sold plans are rated
  - Same analytic categories are used, with some additional attention paid to State governance
  - Fewer inconsistent results

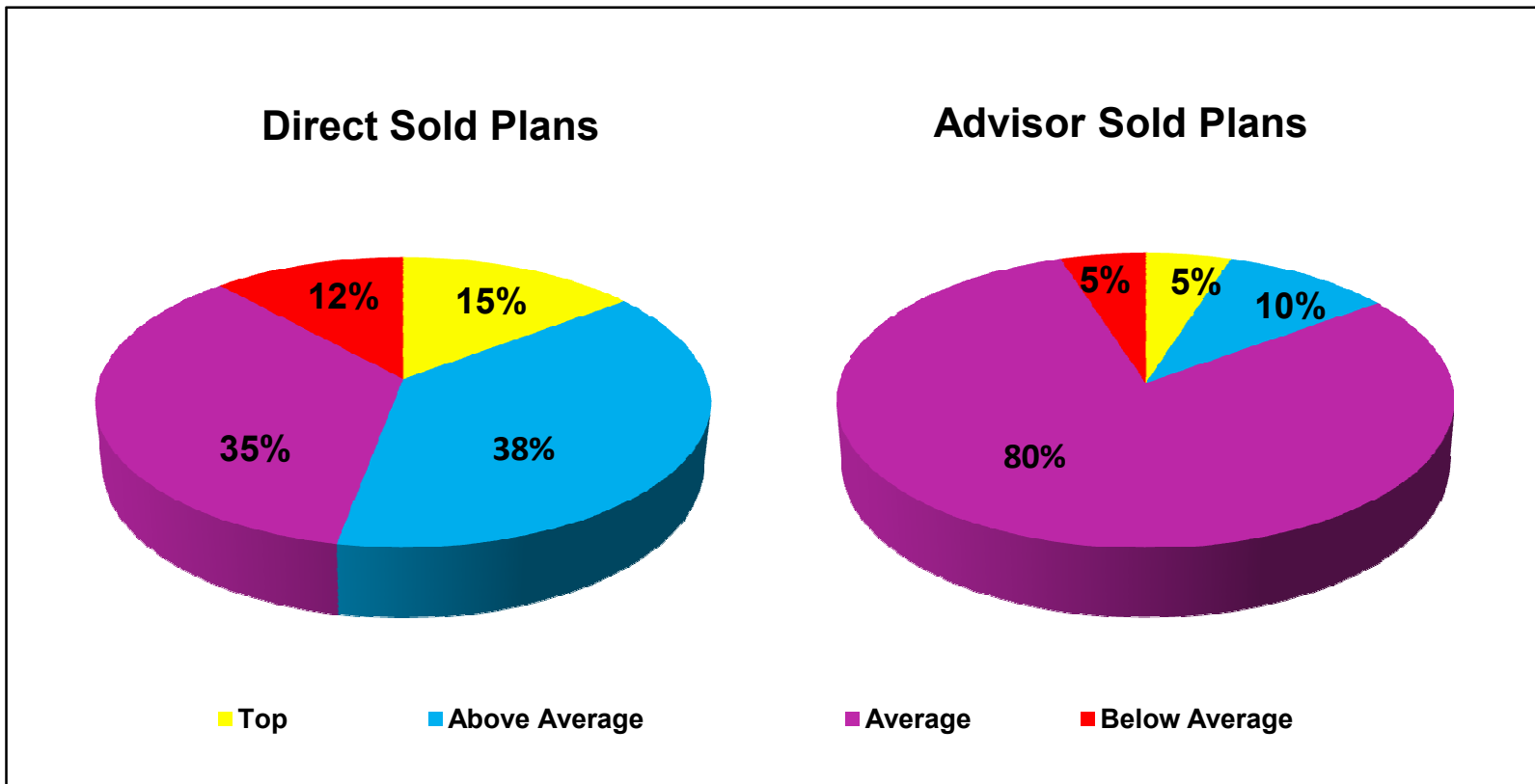
## Morningstar Analysis – Overview of Plans Rated



## Morningstar Analysis – Annual Rating Totals



## Morningstar Analysis – 2011 Ratings by Distribution Channel



## Morningstar Analysis – Plan Comparisons

2011 Factors	M* Benchmark	2011 Illinois Bright Directions	2011 Alabama CollegeCounts	2010 Nebraska College Savings
Rating	Average	Above Average	Average	Average
<u>Portfolio</u> Plan Average M* Rating (Stars) Plan Assets with M* Ratings	1.66 70.74%	2.14 97.20%	Not Rated Not Rated	2.87 97.25%
<u>Performance</u> 3-year annualized return through 9/30/2011	1.96%	Not Provided	Not Provided	3% for 5-year age-based
<u>Price</u> Average Expense Ratio Asset-Wtd Management Fee Asset-Wtd Total Expenses M* Fee Level % Ranking Asset-Wtd M* Fee Rank		1.34% Not Applicable 1.35% 60.57% 66.54%	0.98% Not Applicable 1.16% 41.19% 51.24%	Not Applicable 0.60% 1.11% Not Applicable Not Applicable
<u>Parent</u> Stewardship	No Longer Provided	Not Applicable	Not Applicable	Not Rated
<u>People</u> Manager Tenure	Not Rated	8.87 years	9.54 years	12.72 years



<sup>1</sup> Advisor Plans with Open Architecture

<sup>2</sup> 2010 results: 2.69 stars; 90.28% of assets with Morningstar rating

<sup>3</sup> Morningstar Fee Level Rankings range from 0-100% with 0% being the best

<sup>4</sup> Not provided in 2011 but in 2010 Asset-Weighted Program Management Fee was 0.45%

<sup>5</sup> Unchanged from 2010

## Observations on Morningstar

- **Overall 2011 Report**
  - Morningstar remains focused on low-cost, direct sold plans
  - Improved efforts at “outreach” to State Administrators
  - Qualitative factors (e.g., “Parent” and “People”) remain less than transparent
- **CollegeCounts Fund Analysis**
  - **Advisor and Direct Plans:**
    - Quality of underlying funds is a strong factor in both the Advisor and Direct Plans
    - Alabama tax deduction provides strong in-State incentive
  - **Advisor Plan:**
    - Index funds in certain options offset some active management risk but do not appear to enhance costs sufficiently
    - A Share loads are lower than most other Plans
    - “One of stronger advisor-sold open-architecture plans”
  - **Direct Plan:**
    - More reasonably priced than Advisor Plan but not as cheap as Vanguard options in other plans
- **Recommendation**
  - Search for cost-savings opportunities
  - Continue the dialogue with the rating analyst

## Summary Outlook

- **Market and Alabama**
  - Industry needs a psychological boost in terms of asset and account growth
  - 2011 year-end results will matter overall nationally and for Alabama
- **Program and Industry Developments**
  - Fee pressures have reduced some interest in extremely large direct-sold plans
  - Program Managers will continue to re-assess the financial viability of the business
  - Federal regulatory initiatives will be more focused once SEC resolves Dodd-Frank issues
  - President's higher education proposals may impact college savings
- **Morningstar**
  - Plan to expand “parent” stewardship criteria to focus on state boards and governance
  - Ratings remain somewhat inconsistent